



October 2004

Legislative Audit Division

State of Montana

Report to the Legislature

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Department of Military Affairs

This report contains three recommendations covering:

- Unreconciled expense advances
- Improving cash management procedures
- Federal program reporting

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

October 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Military Affairs for the two fiscal years ended June 30, 2004. Included in this report are recommendations concerning accounting for expense advances, cash management and federal program reporting.

The department's written response to the audit recommendations is included at the end of the audit report. We thank the Adjutant General and his staff for their assistance and cooperation.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2004

Department of Military Affairs

Members of the audit staff involved in this audit were John Fine,
Geri Hoffman, Paul J. O'Loughlin, and Jeff Tamblyn.

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Appointed and Administrative Officials

Department of Military Affairs

Randy Mosley, Adjutant General
Karen Revious, Administrator, Centralized Services Division
Dan McGowan, Administrator, Disaster and Emergency Services Division
Joseph Foster, Administrator, Veterans' Affairs Division
Reid Lund, Administrator, Youth Challenge Program

Board of Veterans' Affairs

		<u>Term Expires</u>
Polly Latray	Helena	8/1/2005
MG Randy Mosley	Helena	8/1/2005
Lori Ryan	Helena	8/1/2005
Charles VanGorden	Valier	8/1/2005
Donald Bogut	Kalispell	8/1/2006
Lee Logan	Ft. Harrison	8/1/2006
Edward Sperry	Stevensville	8/1/2006
Joe Tropila	Great Falls	8/1/2006
Kelley Williams	Helena	8/1/2006
Lloyd Jackson	Ronan	8/1/2006
Charlie Crookshanks	Missoula	8/1/2007
James Heffernan	Helena	8/1/2007
Bob Pavlovich	Butte	8/1/2007
Harvey Rattey	Glendive	8/1/2007
Ray Tindall	Billings	8/1/2007
Karen Furu	Bozeman	8/1/2008
Don Kettner	Glendive	8/1/2008
Sarah Converse, Senator Burns		
Andrea Merrill, Senator Baucus		
Jeff Gerard, Representative Rehberg		

Executive Committee

Donald Bogut, Chairman
Don Kettner, Vice Chairman
Joseph Foster, Administrator, Veterans' Affairs Division

For additional information concerning the
Department of Military Affairs contact:

Karen Revious
Department of Military Affairs
PO Box 4789
Helena, MT 59604-4789
406-324-3330
(e-mail: kprevious@state.mt.us)

Department of Military Affairs

This report documents the issues noted during our financial-compliance audit of the Department of Military Affairs for the two fiscal years ended June 30, 2004. The three recommendations in this report relate to accounting for expense advances, cash management, and filing federal program reports.

We issued an unqualified opinion on the department's financial schedules presented in this report. This means the reader may rely on the presented financial information and the supporting detailed information on the primary accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department reconcile the expense advance account as required by state law..... 5

Department Response: Concur. See page B-3.

Recommendation #2

We recommend the department request federal cash in accordance with department policy..... 6

Department Response: Concur. See page B-3.

Recommendation #3

We recommend the department submit required program reports in accordance with federal regulations..... 7

Department Response: Concur. See page B-3.

Introduction

Introduction

We performed the financial-compliance audit of the Department of Military Affairs (department) for the two fiscal years ended June 30, 2004. The objectives of the audit were to:

1. Determine if the department complied with applicable state and federal laws and regulations.
2. Obtain an understanding of the department's control systems, and, if appropriate, make recommendations for improvement in the internal and management controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the department's financial schedules fairly present the results of operations for the two fiscal years ended June 30, 2004.

This report contains three recommendations to the department. These recommendations address areas where the department can improve compliance with state and federal requirements. Areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

The department was created under the Executive Reorganization Act of 1971. The department consists of the following programs and authorized FTE for fiscal year 2003-04.

The Montana National Guard is authorized approximately 70 full-time equivalent (FTE) positions that are paid through the state's payroll system. An additional 867 full-time personnel are paid through the federal payroll system. The Montana National Guard

Introduction

has two programs – the Air National Guard and the Army National Guard. The Air National Guard provides firefighting personnel, maintenance, and support for Air National Guard facilities at Great Falls. The Army National Guard provides administration, construction, maintenance, and support for facilities and training areas throughout the state.

Centralized Services Division (9 FTE) is the primary administrative support organization for the department, including financial management, budgeting, personnel, and other administrative functions.

The Disaster and Emergency Services Division (25 FTE) works with local, state, and federal officials to prepare, update, and coordinate emergency preparedness, response and recovery plans. DES provides technical support for civil defense shelters, exercises, and radiological defense and monitoring. The division also receives, records, and disburses federal funds to eligible government entities.

The Montana National Guard Youth Challenge Program (48 FTE) is a program for youth ages 16 to 18 who stopped attending secondary school before graduating. Challenge is a 17-month, voluntary, two-phased military modeled training program targeting unemployed, drug-free, non-felons, not currently under judicial supervision. The program provides an opportunity for eligible high school age youth to enhance their life skills, increase their educational levels, and increase their employment potential.

The Veterans' Affairs Division (22 FTE) is responsible for assisting Montana's veterans and dependents in obtaining veterans' benefits and managing the State Veterans' Cemetery program. The division provides information on benefits, guidance on completing veterans' administration forms, and referral to other agencies. The division is attached to the department for administrative purposes. The division administrator is hired by, and reports to, the Board of Veterans' Affairs, a 20-member board, of which 17 are appointed by the

governor and three represent the members of Montana's congressional delegation.

The Montana Guard Scholarship Program was established by the 56th Legislature to assist in recruiting and retention efforts for the Montana Air and Army National Guard. The program provides scholarships of up to \$500 per semester to eligible Montana National Guard personnel enrolled as undergraduate students in colleges, universities, or training programs.

Prior Audit Recommendations

Our office performed the department's financial-compliance audit for the two fiscal years ended June 30, 2002. The audit report contained five recommendations which were implemented.

Findings and Recommendations

Unreconciled Expense Advances

The expense advance account has not been reconciled.

The department recorded \$6,541 of expense advances to employees at both June 30, 2003 and 2004. Department personnel said the supporting records relating to this balance are not up to date and some of the advances may have been returned but posted to a different account. Of the 23 employees with balances, six no longer work for the department. The outstanding balances of those six employees total \$1,381.

In December of 2003, central payroll personnel at the Department of Administration told the department there were expense advance balances that needed to be cleared up. The department has not yet completed the reconciliation in order to accurately record activity on the state's accounting system.

The department has an obligation to properly account for property and funds under its control. State law requires the department to ensure all transactions are recorded on the accounting system by the end of each fiscal year to properly reflect the receipt and use of resources over which the department has control.

Recommendation #1

We recommend the department reconcile the expense advance account as required by state law.

Improving Cash Management

Cash reimbursements were not requested timely.

Federal cash management regulations allow the department to request reimbursement for allowable costs. To facilitate prompt reimbursement from the federal government, the department established policy to request reimbursement the day after a vendor invoice is paid. We noted instances where the department could improve the timeliness of reimbursement requests as noted below.

Findings and Recommendations

While reviewing certain Department of Defense grants we noted the department exceeded the one-day policy for 7 of 20 requests tested for one grant and 3 of 8 tested for another grant. Personnel noted excess workload and personnel problems created delays in processing.

The department also receives federal funds from the Department of Homeland Security/Office of Domestic Preparedness (ODP). We noted three instances totaling \$70,475 which the department did not request federal cash on a timely basis to reimburse the state for expenditures incurred under this grant. We reviewed procedures used to track expenditures for the ODP grants and found overall procedures adequate to ensure cash is requested and received timely based on valid expenditures; however during the fiscal year-end 2003-04 closing period, personnel did not perform cash monitoring procedures.

Delays in requesting federal funds increases the amount of time General Fund cash must be used to cover expenditures. By requesting reimbursement the day after federal program invoices are paid per its internal policy, the department can accelerate its federal reimbursements.

Recommendation #2

We recommend the department request federal cash in accordance with department policy.

Timely Filing of Federal Program Reports

Required program reports were not filed in accordance with federal requirements.

Federal program regulations for the Department of Homeland Security/Office of Domestic Preparedness (ODP) grants require a program report to be completed and submitted within 30 days of the months ending June and December.

Findings and Recommendations

A federal employee conducted a program review of the ODP grant in May 2004, and notified the department that three program reports due January 30, 2004, had not been received. We inquired as to the status of the delinquent reports and were told they had not been completed and the three reports due by July 30, 2004, had not yet been completed.

Department personnel stated allocation of staff time to conduct other grant activities did not allow time to prepare and file the program reports.

Recommendation #3

We recommend the department submit required program reports in accordance with federal regulations.

Independent Auditor's Report & Department Financial Schedules

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Military Affairs for each of the two fiscal years ended June 30, 2004. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Military Affairs for the two fiscal years ended June 30, 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

July 30, 2004

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund
FUND BALANCE: July 1, 2003	\$ <u>(392,709)</u>	\$ <u>454,561</u>	\$ <u>215,854</u>	\$ <u>0</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	674	611,823	35,089,739	325,570
NonBudgeted Revenues & Transfers-In	630			
Prior Year Revenues & Transfers-In Adjustments	782	4,665	(332,154)	
Direct Entries to Fund Balance	<u>4,347,579</u>	<u>47,240</u>	<u>(9,180,554)</u>	
Total Additions	<u>4,349,665</u>	<u>663,728</u>	<u>25,577,031</u>	<u>325,570</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	4,298,488	585,266	25,517,182	780,360
NonBudgeted Expenditures & Transfers-Out		2,885	24,399	
Prior Year Expenditures & Transfers-Out Adjustments	<u>36,003</u>	<u>(913)</u>	<u>(45,537)</u>	
Total Reductions	<u>4,334,491</u>	<u>587,238</u>	<u>25,496,044</u>	<u>780,360</u>
FUND BALANCE: June 30, 2004	\$ <u><u>(377,535)</u></u>	\$ <u><u>531,051</u></u>	\$ <u><u>296,841</u></u>	\$ <u><u>(454,790)</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund
FUND BALANCE: July 1, 2002	\$ <u>(372,070)</u>	\$ <u>445,965</u>	\$ <u>(237,946)</u>	\$ <u>184,372</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	530,317	227,022	26,247,277	
NonBudgeted Revenues & Transfers-In	584			
Prior Year Revenues & Transfers-In Adjustments	2,288	3,600	60,258	(9,741)
Direct Entries to Fund Balance	<u>2,448,341</u>	<u>1,069,332</u>	<u>(2,842,912)</u>	<u>(174,631)</u>
Total Additions	<u>2,981,530</u>	<u>1,299,954</u>	<u>23,464,623</u>	<u>(184,372)</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	3,088,111	1,317,322	23,076,575	
Prior Year Expenditures & Transfers-Out Adjustments	<u>(85,944)</u>	<u>(25,964)</u>	<u>(65,750)</u>	
Total Reductions	<u>3,002,167</u>	<u>1,291,358</u>	<u>23,010,825</u>	
FUND BALANCE: June 30, 2003	\$ <u><u>(392,709)</u></u>	\$ <u><u>454,561</u></u>	\$ <u><u>215,854</u></u>	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Taxes	\$ 630				\$ 630
Charges for Services	1,456	\$ 66,183	\$ 12,264,143		12,331,782
Grants, Contracts, Donations and Abandonments		14,072			14,072
Other Financing Sources		536,233		\$ 325,570	861,803
Federal			22,465,688		22,465,688
Federal Indirect Cost Recoveries			27,754		27,754
Total Revenues & Transfers-In	<u>2,086</u>	<u>616,488</u>	<u>34,757,585</u>	<u>325,570</u>	<u>35,701,729</u>
Less: Nonbudgeted Revenues & Transfers-In	630				630
Prior Year Revenues & Transfers-In Adjustments	<u>782</u>	<u>4,665</u>	<u>(332,154)</u>		<u>(326,707)</u>
Actual Budgeted Revenues & Transfers-In	674	611,823	35,089,739	325,570	36,027,806
Estimated Revenues & Transfers-In	<u>0</u>	<u>1,193,703</u>	<u>35,734,663</u>	<u>320,000</u>	<u>37,248,366</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u>674</u>	\$ <u>(581,880)</u>	\$ <u>(644,924)</u>	\$ <u>5,570</u>	\$ <u>(1,220,560)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services	\$ 674	\$ (301,882)	\$ 12,146,010		\$ 11,844,802
Rentals, Leases and Royalties		(26,000)			(26,000)
Grants, Contracts, Donations and Abandonments		(25,928)			(25,928)
Other Financing Sources		(228,070)		\$ 5,570	(222,500)
Federal			(12,788,688)		(12,788,688)
Federal Indirect Cost Recoveries			(2,246)		(2,246)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ <u>674</u>	\$ <u>(581,880)</u>	\$ <u>(644,924)</u>	\$ <u>5,570</u>	\$ <u>(1,220,560)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund
FUND BALANCE: July 1, 2002	\$ <u>(372,070)</u>	\$ <u>445,965</u>	\$ <u>(237,946)</u>	\$ <u>184,372</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	530,317	227,022	26,247,277	
NonBudgeted Revenues & Transfers-In	584			
Prior Year Revenues & Transfers-In Adjustments	2,288	3,600	60,258	(9,741)
Direct Entries to Fund Balance	<u>2,448,341</u>	<u>1,069,332</u>	<u>(2,842,912)</u>	<u>(174,631)</u>
Total Additions	<u>2,981,530</u>	<u>1,299,954</u>	<u>23,464,623</u>	<u>(184,372)</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	3,088,111	1,317,322	23,076,575	
Prior Year Expenditures & Transfers-Out Adjustments	<u>(85,944)</u>	<u>(25,964)</u>	<u>(65,750)</u>	
Total Reductions	<u>3,002,167</u>	<u>1,291,358</u>	<u>23,010,825</u>	
FUND BALANCE: June 30, 2003	\$ <u><u>(392,709)</u></u>	\$ <u><u>454,561</u></u>	\$ <u><u>215,854</u></u>	\$ <u><u>0</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AIR NATIONAL GUARD PROGRAM	ARMY NATIONAL GUARD PROGRAM	CENTRALIZED SERVICES	CHALLENGE PROGRAM	DISASTER & EMERGENCY SERVICES	DISASTER FUND	MILITARY CAPITAL CONSTRUCTION	SCHOLARSHIP PROGRAM	VETERANS AFFAIRS PROGRAM	TOTAL
Personal Services										
Salaries	\$ 1,257,125	\$ 1,381,484	\$ 416,509	\$ 1,241,308	\$ 1,069,821	\$ 1,749,234	\$ 4,620		\$ 587,842	\$ 7,707,943
Employee Benefits	445,449	402,936	108,530	432,639	299,397	157,335	1,198		201,061	2,048,545
Total	<u>1,702,574</u>	<u>1,784,420</u>	<u>525,039</u>	<u>1,673,947</u>	<u>1,369,218</u>	<u>1,906,569</u>	<u>5,818</u>		<u>788,903</u>	<u>9,756,488</u>
Operating Expenses										
Other Services	449,093	1,562,084	18,568	532,984	232,790	798,954	3,110		94,143	3,691,726
Supplies & Materials	124,745	373,282	17,737	82,393	244,107	42,373			104,246	988,883
Communications	177	973,908	2,875	49,268	32,858	5,589	162		26,125	1,090,962
Travel	19,970	85,087	2,169	75,149	131,902	111,387	586		38,302	464,552
Rent	1,812	78,917	371	275,068	8,079	379			26,849	391,475
Utilities	551,064	1,387,688		613	338				6,948	1,946,651
Repair & Maintenance	91,450	1,033,516	6	17,270	51,041	3,660	295,174		122,875	1,614,992
Other Expenses	10,628	141,379	33,410	33,119	30,508	60,955		\$ 172,500	5,391	487,890
Total	<u>1,248,939</u>	<u>5,635,861</u>	<u>75,136</u>	<u>1,065,864</u>	<u>731,623</u>	<u>1,023,297</u>	<u>299,032</u>	<u>172,500</u>	<u>424,879</u>	<u>10,677,131</u>
Equipment & Intangible Assets										
Equipment		90,924								90,924
Total		<u>90,924</u>								<u>90,924</u>
Capital Outlay										
Land & Interest In Land							846,156			846,156
Buildings							3,604,760		15,716	3,620,476
Total							<u>4,450,916</u>		<u>15,716</u>	<u>4,466,632</u>
Grants										
From State Sources					20,604	220,167				240,771
From Federal Sources					5,062,598	575,738				5,638,336
Total					<u>5,083,202</u>	<u>795,905</u>				<u>5,879,107</u>
Benefits & Claims										
To Individuals			2,280							2,280
Total			<u>2,280</u>							<u>2,280</u>
Transfers										
Accounting Entity Transfers							325,571			325,571
Total							<u>325,571</u>			<u>325,571</u>
Total Expenditures & Transfers-Out	\$ <u>2,951,513</u>	\$ <u>7,511,205</u>	\$ <u>602,455</u>	\$ <u>2,739,811</u>	\$ <u>7,184,043</u>	\$ <u>3,725,771</u>	\$ <u>5,081,337</u>	\$ <u>172,500</u>	\$ <u>1,229,498</u>	\$ <u>31,198,133</u>
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	\$ 282,267	\$ 1,215,555	\$ 427,123	\$ 1,107,500	\$ 455,912	\$ 14,260		\$ 172,500	\$ 659,374	\$ 4,334,491
State Special Revenue Fund		120		(1,052)	35,108				553,062	587,238
Federal Special Revenue Fund	2,669,246	6,295,530	175,332	1,633,363	6,693,023	3,711,511	\$ 4,300,977		17,062	25,496,044
Capital Projects Fund							780,360			780,360
Total Expenditures & Transfers-Out	<u>2,951,513</u>	<u>7,511,205</u>	<u>602,455</u>	<u>2,739,811</u>	<u>7,184,043</u>	<u>3,725,771</u>	<u>5,081,337</u>	<u>172,500</u>	<u>1,229,498</u>	<u>31,198,133</u>
Less: Nonbudgeted Expenditures & Transfers-Out		120	24,399		66				2,699	27,284
Prior Year Expenditures & Transfers-Out Adjustments	(314)	3,555	(195)	(21,934)	8,482				(41)	(10,447)
Actual Budgeted Expenditures & Transfers-Out	<u>2,951,827</u>	<u>7,507,530</u>	<u>578,251</u>	<u>2,761,745</u>	<u>7,175,495</u>	<u>3,725,771</u>	<u>5,081,337</u>	<u>172,500</u>	<u>1,226,840</u>	<u>31,181,296</u>
Budget Authority	3,515,364	9,123,931	644,089	2,808,969	25,157,623	4,977,933	57,159,072	250,000	1,458,629	105,095,610
Unspent Budget Authority	\$ <u>563,537</u>	\$ <u>1,616,401</u>	\$ <u>65,838</u>	\$ <u>47,224</u>	\$ <u>17,982,128</u>	\$ <u>1,252,162</u>	\$ <u>52,077,735</u>	\$ <u>77,500</u>	\$ <u>231,789</u>	\$ <u>73,914,314</u>
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	\$ 20,403	\$ 1,392	\$ 16,213	\$ 7,540	\$ 601	\$ 19,500		\$ 77,500	\$ 1,073	\$ 144,222
State Special Revenue Fund		189,000			68,988				230,455	488,443
Federal Special Revenue Fund	543,134	1,426,009	49,625	39,684	17,912,539	1,232,662	\$ 44,208,652		261	65,412,566
Capital Projects Fund							7,869,083			7,869,083
Unspent Budget Authority	\$ <u>563,537</u>	\$ <u>1,616,401</u>	\$ <u>65,838</u>	\$ <u>47,224</u>	\$ <u>17,982,128</u>	\$ <u>1,252,162</u>	\$ <u>52,077,735</u>	\$ <u>77,500</u>	\$ <u>231,789</u>	\$ <u>73,914,314</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT FOR THE FISCAL YEAR ENDED JUNE 30, 2003										
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	AIR NATIONAL GUARD PROGRAM	ARMY NATIONAL GUARD PROGRAM	CENTRALIZED SERVICES	CHALLENGE PROGRAM	DISASTER & EMERGENCY SERVICES	DISASTER FUND	MILITARY CAPITAL CONSTRUCTION	SCHOLARSHIP PROGRAM	VETERANS AFFAIRS PROGRAM	TOTAL
Personal Services										
Salaries	\$ 1,186,221	\$ 1,293,362	\$ 376,230	\$ 1,237,709	\$ 873,491	\$ 51,390	\$ 389		\$ 559,053	\$ 5,577,845
Employee Benefits	371,615	344,408	91,245	373,914	220,739	13,538	97		167,224	1,582,780
Total	<u>1,557,836</u>	<u>1,637,770</u>	<u>467,475</u>	<u>1,611,623</u>	<u>1,094,230</u>	<u>64,928</u>	<u>486</u>		<u>726,277</u>	<u>7,160,625</u>
Operating Expenses										
Other Services	347,946	1,474,219	18,651	527,111	71,410	2,609	30,514		48,384	2,520,844
Supplies & Materials	68,496	476,319	10,931	130,954	44,359	52,253	(1,853)		10,724	792,183
Communications	1	828,785	251	62,711	24,454	1,261	1,029		21,054	939,546
Travel	4,410	89,593	314	84,347	92,105	11,199	2,560		19,007	303,535
Rent		78,685	380	272,005	772	4,701			24,706	381,249
Utilities	459,231	1,019,017		613					5,462	1,484,323
Repair & Maintenance	57,767	1,088,149	61	20,076	31,533	1,670	729,904		(4,299)	1,924,861
Other Expenses	6,907	67,647	2,832	34,781	19,534	9,121		\$ 123,952	3,532	268,306
Total	<u>944,758</u>	<u>5,122,414</u>	<u>33,420</u>	<u>1,132,598</u>	<u>284,167</u>	<u>82,814</u>	<u>762,154</u>	<u>123,952</u>	<u>128,570</u>	<u>8,614,847</u>
Equipment & Intangible Assets										
Equipment		82,226				13,232				95,458
Total		<u>82,226</u>				<u>13,232</u>				<u>95,458</u>
Capital Outlay										
Buildings							7,130,188			7,130,188
Other Improvements							19,998			19,998
Total							<u>7,150,186</u>			<u>7,150,186</u>
Grants										
From State Sources						16,773				16,773
From Federal Sources					2,142,259	1,614,007				3,756,266
Total					<u>2,142,259</u>	<u>1,630,780</u>				<u>3,773,039</u>
Benefits & Claims										
To Individuals			2,280							2,280
Total			<u>2,280</u>							<u>2,280</u>
Transfers										
Accounting Entity Transfers						517,656	(9,741)			507,915
Total						<u>517,656</u>	<u>(9,741)</u>			<u>507,915</u>
Total Expenditures & Transfers-Out	\$ <u>2,502,594</u>	\$ <u>6,842,410</u>	\$ <u>503,175</u>	\$ <u>2,744,221</u>	\$ <u>3,533,888</u>	\$ <u>2,296,178</u>	\$ <u>7,903,085</u>	\$ <u>123,952</u>	\$ <u>854,847</u>	\$ <u>27,304,350</u>
EXPENDITURES & TRANSFERS-OUT BY FUND										
General Fund	\$ 209,166	\$ 1,059,098	\$ 377,975	\$ (19,721)	\$ 515,679	\$ 33,982		\$ 123,952	\$ 702,036	\$ 3,002,167
State Special Revenue Fund				1,117,623	20,924				152,811	1,291,358
Federal Special Revenue Fund	<u>2,293,428</u>	<u>5,783,312</u>	<u>125,200</u>	<u>1,646,319</u>	<u>2,997,285</u>	<u>2,262,196</u>	\$ <u>7,903,085</u>			<u>23,010,825</u>
Total Expenditures & Transfers-Out	2,502,594	6,842,410	503,175	2,744,221	3,533,888	2,296,178	7,903,085	123,952	854,847	27,304,350
Less: Prior Year Expenditures & Transfers-Out Adjustments	<u>5,403</u>	<u>(58,890)</u>	<u>(1,443)</u>	<u>(54,208)</u>	<u>(41,726)</u>	<u>(156)</u>			<u>(26,641)</u>	<u>(177,661)</u>
Actual Budgeted Expenditures & Transfers-Out	2,497,191	6,901,300	504,618	2,798,429	3,575,614	2,296,334	7,903,085	123,952	881,488	27,482,011
Budget Authority	<u>2,553,409</u>	<u>7,531,776</u>	<u>529,370</u>	<u>2,906,052</u>	<u>6,926,681</u>	<u>4,018,767</u>	<u>43,644,560</u>	<u>123,952</u>	<u>983,312</u>	<u>69,217,879</u>
Unspent Budget Authority	\$ <u>56,218</u>	\$ <u>630,476</u>	\$ <u>24,752</u>	\$ <u>107,623</u>	\$ <u>3,351,067</u>	\$ <u>1,722,433</u>	\$ <u>35,741,475</u>	\$ <u>0</u>	\$ <u>101,824</u>	\$ <u>41,735,868</u>
UNSPENT BUDGET AUTHORITY BY FUND										
General Fund	\$ 2,810	\$ 132,536	\$ 22,877	\$ 34,850	\$ 17,751	\$ 29,442			\$ 25,467	\$ 265,733
State Special Revenue Fund		132,800		5,616	672				76,357	215,445
Federal Special Revenue Fund	<u>53,408</u>	<u>365,140</u>	<u>1,875</u>	<u>67,157</u>	<u>3,332,644</u>	<u>1,692,991</u>	\$ <u>35,741,475</u>			<u>41,254,690</u>
Unspent Budget Authority	\$ <u>56,218</u>	\$ <u>630,476</u>	\$ <u>24,752</u>	\$ <u>107,623</u>	\$ <u>3,351,067</u>	\$ <u>1,722,433</u>	\$ <u>35,741,475</u>	\$ <u>0</u>	\$ <u>101,824</u>	\$ <u>41,735,868</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana Department of Military Affairs

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2004

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental funds (General, State Special Revenue, Federal Special Revenue, and Capital Projects). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year end, but not received as of fiscal year end; and equipment ordered with a purchase order before fiscal year end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. Department accounts are organized in funds according to state law applicable at the time transactions were recorded. The department uses the following funds:

Notes to the Financial Schedules

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific revenue sources (other than private purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. Most of the department State Special Revenue Funds relate to Veterans' Cemeteries.

Federal Special Revenue Fund - to account for proceeds of specific federal revenue sources that are legally restricted to expenditures for specific purposes. The department's Federal Special Revenue Funds include Air and Army National Guard, Military Construction, and Disaster and Emergency Services.

Capital Project Fund - to account for financial resources used for acquisition or construction of major capital facilities. The department's Capital Project Fund accounts for construction of joint state/federal facilities appropriated in HB-5 (Chapter 586, 2003 Session Laws and Chapter 573, 2001 Session Laws).

2. General Fund Balance

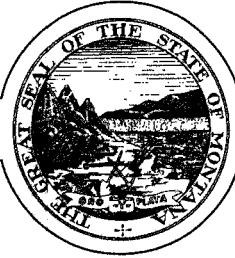
The negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency has authority to pay obligations from the statewide General Fund within its appropriation limits. Each agency expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2003, and June 30, 2004.

3. Direct Entries to Fund Balance

Direct entries to fund balance in the General, State Special Revenue, Federal Special Revenue and Capital Project Funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Department Response

DEPARTMENT OF MILITARY AFFAIRS



JUDY MARTZ
GOVERNOR

ARMED FORCES RESERVE CENTER
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STATE OF MONTANA

OFFICE OF THE ADJUTANT GENERAL
MAJOR GENERAL RANDALL D. MOSLEY
(406)324-3000 - FAX (406)324-3011

PO BOX 4789
HELENA, MONTANA 59604-4789

October 7, 2004

Paul O'Loughlin
Senior Auditor
P O Box 201705
Helena, Mt 59620-1705

RECEIVED

OCT 07 2004

LEGISLATIVE AUDIT DIV.

Dear Mr. O'Loughlin:

Thank you for the opportunity to review and respond to the Financial Compliance Audit Report received by this office October 4, 2004. I appreciate the recommendations and insights concerning our financial operations which were made by your staff during this audit period.

In response to your written recommendations contained within the report, I submit the following:

Recommendation #1:

We concur with your recommendation. The Centralized Services Division is currently working on reconciling the expense advance account and will have this task completed no later than October 31, 2004.

Recommendation #2:

We concur with your recommendation. The Department will request federal cash in accordance with department policy.

Recommendation #3:

We concur with your recommendation. The Department has completed and submitted the required program reports in accordance with federal regulations and will continue to do so in a timely manner.

Sincerely,

A large, stylized handwritten signature of Randall D. Mosley in black ink, with a long horizontal flourish extending to the right.

Randall D. Mosley
Major General, Montana National Guard
The Adjutant General